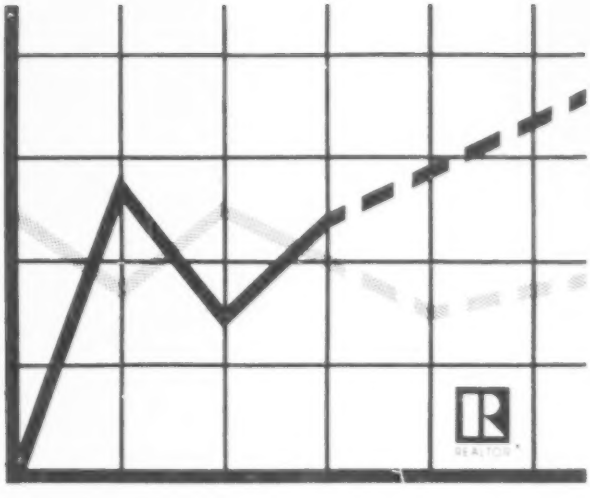
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



BY

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U.S. ECONOMY OUTLOOK

Real Estate Outlook

Despite the current depressed state of the housing industry there is some reason for expecting a modest improvement in new home sales and construction activity at the end of year.

Resales of existing single-family homes should begin to pick up during the summer setting the stage for a higher level of resale transactions of 3.7 million units in 1981.

New housing starts declined to 1.04 million units in March, down 49.3 percent from 15 months ago. Housing construction should begin to recover in late 1980 averaging 1.1 million units for the year. New starts are expected to improve further to 1.6 million units in 1981, still well below the underlying demand for over 2 million new units each year. The current shortfall in new housing construction will add to the rental housing shortage over the next five years and cause single-family home prices to increase faster than the rate of inflation during 1981.

The affordability crisis caused by higher interest rates should also ease somewhat. Mortgage interest rates have peaked and will soon trend slowly downward to about 14 percent by the end of this year. Potential homebuyers are well advised to consider a new home purchase during the next six months to take advantage of easing mortgage interest rates and to avoid even higher home prices during the next two years.

Overall Economy

The economy is entering the long predicted recession with retail sales, industrial production, and investment spending all declining. The slide in economic activity will continue until late summer. However, this is likely to be an average recession--the projected two percent decline in GNP will be only one third as severe as the six percent drop during the 1974-75 recession and is in line with the 2.5 percent average decline for the five recessions since World War II.

The 1980 recession will cause only a slight easing of inflationary pressures and a modest decline in short-term and long-term interest rates from their current record highs. Nevertheless, the current inappropriate mix of federal economic policies--tight credit with excessive growth in federal spending and taxes--will likely keep mortgage rates above 13 percent over the next 15 months.

Transitory Solution to Inflation

The President and Congress have indicated they are not yet willing to join the fight against inflation in proposing increases in spending for the remainder of this year. The Adminstration's formula for achieving a balanced budget in 1981 calls for increasing taxes to record levels rather than curbing spending. This demonstrates once again that the private sector will bear the entire sacrifice in the fight against inflation and that the fight will be too anemic to bring inflation below double-digit levels for many years.

Slower growth in federal spending--with expenditures in 1981 2 percent (or $17 billion) less than proposed by House budget committee--and the introduction of tax relief to encourage savings and investments in housing and productivity increasing new plant and equipment is necessary for an effective fight against inflation.

OUTLOOK FOR THE U.S. ECONOMY AND REAL ESTATE

MAY 1980

	QUARTERS								YEARS			
	Actual		Forecast						Actual		Forecast	
	79:4	80:1	80:2	80:3	80:4	81:1	81:2	81:3	1978	1979	1980	1981
AGGREGATE ECONOMY												
Gross National Product (billions of dollars)	2,457	2,520	2,561	2,609	2,681	2,755	2,853	2,965	2,128	2,369	2,593	2,916
Percent Change	10.5	10.7	6.7	7.7	11.5	11.5	15.0	16.7	12.0	11.3	9.5	12.5
Percent Change (without inflation)	2.0	1.1	-4.1	-3.6	0.0	1.2	4.2	5.9	4.4	2.3	-0.4	1.5
Consumption	4.1	1.6	-3.6	-1.3	1.1	1.1	1.9	4.8	4.3	2.6	0.3	1.4
Residential Investment	-4.9	-19.8	-49.9	-27.6	1.1	12.6	29.2	33.2	4.2	-5.7	-20.9	5.2
Nonresidential Investment	-0.5	1.3	-3.1	-3.1	-1.1	-3.5	-0.1	1.4	8.4	8.2	0.4	-1.1
Structures	12.2	2.8	-2.8	-4.5	-4.2	-11.0	-9.1	-2.1	12.2	9.6	3.5	-5.4
Equipment	-6.0	0.3	-3.4	-2.4	0.9	0.4	2.3	3.2	6.7	6.7	-1.1	0.7
Exports	7.1	13.5	1.0	-1.6	-2.1	-0.7	5.2	8.1	10.6	10.1	6.9	1.3
Imports	8.1	11.7	-9.2	-3.7	1.7	3.8	7.6	3.8	11.1	4.4	2.8	1.6
Government Purchases	6.0	5.4	-2.2	-1.6	0.8	1.9	2.9	2.8	1.8	0.4	1.8	1.4
Residential Investment (percent of GNP)	3.9	3.7	3.1	2.9	2.8	3.0	3.1	3.3	4.3	4.0	3.1	3.1
Nonresidential Structures Investment (percent of GNP)	3.3	3.3	3.3	3.3	3.3	3.1	3.1	3.2	3.1	3.4	3.5	3.3
Inventory Change (billions of dollars)	5.6	4.5	4.1	-1.0	-1.4	-1.9	4.3	11.2	22.3	18.1	-0.5	7.5
Mfg. Capacity Utilization Rate (percent)	85	84	81	79	78	78	79	81	84	84	81	80
Manufacturing Industrial Production (percent change)	-0.9	-1.0	-2.6	-2.8	-1.1	1.5	7.4	11.2	6.1	4.4	-2.9	2.3
Employment (millions)	97.1	97.8	97.0	97.2	97.7	97.9	98.2	98.7	94.4	96.9	97.4	98.5
Unemployment Rate (percent)	6.4	6.2	6.6	7.0	7.3	7.2	7.0	7.0	6.0	5.8	6.9	7.2
Real Disposable Income per Household (% change)	1.1	-0.2	-1.1	-1.9	-0.9	-0.5	1.7	7.1	1.8	1.1	-1.1	3.6
Disposable Income per Household (average)	20,267	20,409	20,308	20,340	20,468	20,618	20,983	21,620	17,789	19,356	20,431	21,151
Total Taxes per Household (average)	11,711	11,998	12,261	12,457	12,574	12,128	12,578	13,814	10,164	11,207	12,337	13,201
Percent Change	13.0	10.1	9.0	8.3	8.0	13.9	14.6	9.7	12.3	10.2	10.1	7.0
Consumer Price Inflation (CPI)	12.9	14.2	19.3	16.3	13.9	12.2	12.1	12.4	7.7	11.4	13.4	13.2
Producers Price Inflation (PPI)	16.7	17.5	17.9	15.2	12.1	11.7	14.1	14.0	7.8	12.8	14.3	13.0
Gross National Product Inflation (GNP Deflator)	8.1	9.1	11.3	11.5	11.1	10.1	12.4	10.2	7.4	9.4	9.9	10.7
Residential Construction Inflation	8.4	10.1	9.8	10.7	10.8	10.6	10.4	14.1	13.1	12.3	10.1	14.1
Nonresidential Construction Inflation	13.0	14.0	10.1	10.0	10.1	10.3	11.2	12.9	8.9	10.3	9.9	10.6
Compensation per Manhour (percent change)	9.1	10.4	11.2	11.4	11.1	11.2	11.6	11.3	9.2	9.0	10.1	11.3
Productivity (percent change)	0.3	-0.3	-4.7	-4.3	-0.8	0.6	1.8	1.9	1.7	-1.1	-0.9	-0.6
Unit Labor Cost (percent change)	8.7	10.7	16.6	15.9	12.1	10.6	9.8	9.3	7.5	10.2	11.1	11.9
Before Tax Corporate Profits (billions of dollars)	241	246	249	237	235	233	242	258	206	218	245	253
Corporate Tax Liability	98	101	98	94	93	90	94	100	83	88	97	99
After Tax Profits	143	145	149	143	142	143	148	158	122	130	147	155
Inventory Valuation Adjustment	-47	-46	-65	-64	-61	-60	-59	-60	-27	-42	-64	-61
Capital Consumption Adjustment	-25	-25	-25	-26	-25	-27	-29	-31	-19	-17	-24	-30
Profits from Current Production	69	71	89	83	86	90	88	91	64	86	88	92
Adjusted for Inflation (1972 base)	33	33	39	36	37	38	37	38	27	36	38	38
Percent Change - Year Ago	-17.3	-25.6	+37.2	+42.9	+16.3	+20.7	-11.7	9.2	9.2	-5.1	+39.4	-1.2
Per Unit of Output (percent of GNP)	3.3	3.4	3.6	3.4	3.4	3.4	3.4	3.4	3.4	3.6	3.6	3.6
Effective Corporate Tax Rate (percent)	41	41	42	40	40	40	40	40	40	41	42	42
Federal Tax Receipts (NIA basis)	320	341	334	344	349	339	338	344	272	309	344	382
Federal Expenditures (NIA basis)	342	365	370	401	414	408	405	419	307	358	392	448
Surplus or Deficit (NIA basis) (1)	-19	-23	-36	-57	-65	-69	-67	-76	-35	-49	-48	-67
REAL ESTATE MARKETS												
Existing Single-Family Home Sales (thousands)	1,777	1,801	1,651	1,638	1,681	1,775	1,853	1,832	1,961	1,981	1,805	1,711
Percent Change - Year Ago	-11.0	-8.1	-11.1	-7.1	-5.1	-1.9	12.2	11.9	8.4	+1.0	-11.1	-5.4
Dollar Volume (billions)	231.2	246.5	189.1	191.8	199.4	220.1	248.7	255.8	216.0	257.6	230.2	244.0
New Single-Family Home Sales (thousands)	618	545	448	479	544	575	650	679	817	912	660	681
Percent Change - Year Ago	-25.4	-26.6	-39.6	-25.2	-11.9	-7.0	+45.5	+41.7	+6.4	+11.8	-27.6	+3.1
Private Housing Starts (thousands)	1,583	1,264	1,004	1,200	1,300	1,281	1,491	1,594	2,001	1,744	1,137	1,324
Single-Family	1,058	749	662	730	846	919	1,000	1,146	1,433	1,193	757	1,090
Multi-Family	525	515	342	470	454	362	491	448	567	551	380	234
Subsidized	59	149	151	193	174	136	-	135	135	120	136	136
Mobile Home Shipments (thousands)	282	264	218	268	285	283	289	308	278	273	233	201
Housing Inventories (millions)	83.1	83.5	83.7	83.8	83.8	84.1	84.1	84.4	81.5	82.8	83.7	84.4
Rental Vacancy Rate (percent)	5.0	4.9	4.9	4.8	4.8	4.9	5.0	5.0	5.1	5.0	4.7	5.0
Unsold New Homes (percent of sales)	66.9	73.4	76.4	76.0	71.2	71.0	69.1	68.6	50.1	59.4	73.5	68.1
Office Vacancy Rate (percent)(2)	3.8	3.4	3.4	3.6	3.8	4.0	4.1	4.2	3.4	3.4	3.8	4.1
Industrial Vacancy Rate (percent)(2)	3.9	3.3	3.7	3.8	4.1	4.1	3.8	3.6	3.8	3.8	3.8	3.9
Existing Home Prices - Median (thousands of dollars)	56.1	58.5	61.3	63.4	63.6	66.0	68.3	72.0	48.7	55.9	61.8	70.1
Percent Change - Year Ago	11.0	11.1	9.9	10.6	13.6	12.9	13.0	13.6	13.9	14.1	11.2	13.5
New Home Prices - Median (thousands of dollars)	62.5	65.6	67.3	69.9	71.1	72.4	76.1	79.8	55.8	62.8	68.6	77.1
Percent Change - Year Ago	6.1	6.9	8.6	9.3	13.9	13.1	12.4	12.6	13.9	12.5	9.2	12.6
FINANCIAL MARKETS												
Total Time and Savings Deposits (% change)	10.7	8.0	7.4	3.7	1.8	3.2	4.3	5.5	11.6	9.4	7.2	3.9
Savings Rate (percent)	5.5	5.4	5.3	5.0	5.7	5.3	5.5	5.3	4.9	4.6	5.7	5.4
New Mortgage Commitments (billions of dollars)	104.7	94.2	72.4	56.8	62.3	70.6	81.3	91.4	136.0	123.0	71.5	84.7
Percent Change - Year Ago	-29.4	-21.4	-44.8	-58.0	-40.5	-25.2	11.5	60.9	1.6	-9.6	-41.8	18.4
Mortgage Debt Outstanding (billions of dollars)	1,334	1,358	1,384	1,408	1,429	1,455	1,485	1,517	1,113	1,272	1,394	1,502
Money Supply (M2) (% change)	9.2	5.7	4.6	1.2	2.7	1.8	1.9	4.7	8.8	8.0	6.4	2.6
New Home Mortgage Commitment Rate (percent)	12.27	13.60	15.04	14.57	14.16	13.85	13.64	13.45	9.69	11.23	14.34	13.54
AAA Corporate Bond Rate (percent)	10.54	12.14	12.83	12.26	11.90	11.20	11.06	11.04	8.72	9.63	12.28	11.09
Prime Rate (percent)	15.08	16.11	19.97	16.46	14.88	13.48	13.09	12.62	9.06	12.67	16.66	12.95
Federal Funds Rate (percent)	13.58	14.05	16.74	14.19	11.09	12.14	11.80	11.56	7.93	11.19	14.82	11.69

<1> Assumptions include a $10 billion rollback in scheduled Social Security taxes after 1981:1 and a $5 billion (annual rate) cut in corporate income taxes beginning 1981:1.
<2> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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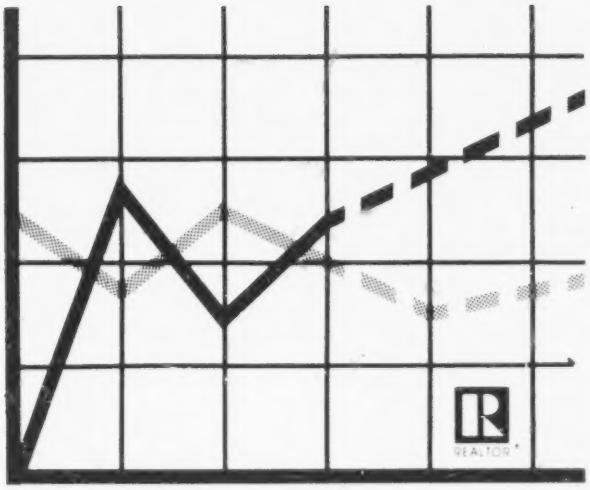

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June 1980

U. S. ECONOMIC OUTLOOK

General Economy

The serious recession which has affected the housing industry for eight months is clearly spreading to the rest of the economy. Retail sales have declined drastically over the last 60 days, industrial output has dropped and unemployment is growing rapidly.

Real national output is expected to drop by 3.5 percent by the November election, from its peak in the first three months of the year, making the current recession worse than the average post-war recession but less severe than that of 1974-75. Output is expected to increase a modest 1.2 percent in 1981 and a strong 5.3 percent in 1982.

The current recession has been led by drops in residential investment and durable goods consumption. A significant improvement in housing starts, auto purchases and business investment in new equipment is expected to lead the economic recovery over the next two years.

Unemployment is forecast to rise to 9 percent before the end of this year and slowly decline during 1981 and 1982 as economic activity picks up early next year and becomes much stronger in 1982.

Because of the severity of the current recession, and the expected slower growth of OPEC prices during the next several months, consumer inflation is forecast to slow temporarily from around 18 percent in March to about 10 percent by the end of the year. However, as the economy begins to improve next year, inflation is expected to accelerate again. One of the difficulties of lowering the underlying rate of price increase is that increases in average compensation per worker-hour and therefore labor costs, are likely to rise from 9 percent in 1979 and 1980 to 11 percent during 1981 and 1982. Although productivity growth is expected to decline during 1980, a modest improvement should occur during the next two years.

Corporate profits are suffering much more during the current recession than other sources of income and more than during previous economic cycles. Based on government figures, after-tax profits from current production are at an all-time low of 2¢ for every final sales dollar. While profits from current production are forecast to improve slowly during the next two years, they will continue to fall short of the 4-5¢ for every final sales dollar required to provide adequate investment incentive. Increases in corporate taxes because of the effects of inflation on depreciation allowances and the impact of costly government over-regulation are two major reasons for the slow growth of investment and productivity in the U.S. since 1973.

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Real Estate Outlook

Existing home sales have dropped a record 45 percent from last Fall, from 3.9 million units (annual rate) to 2.2 million in May. However, there are signs of a slight improvement in June and sales can be expected to improve gradually throughout the remainder of 1980 and into 1981 before reaching a record level in 1982. Housing starts are forecast to rise only modestly over the next six months, but a significant improvement can be expected during the next two years, averaging 1.5 million units in 1981 and over 2 million units in 1982.

Housing prices, and particularly prices for new homes, are currently increasing at a rate less rapidly than overall inflation and this should continue during the next six months. However, both existing and new home prices are expected to rise faster than overall inflation through 1981 and 1982 because of the declining inventory of unsold new homes and the acceleration in residential construction inflation expected during the next two years.

New home mortgage commitment rates have declined significantly from a high of over 16 percent in April to around 13 percent. This drop in mortgage interest rates and the temporary slower growth of housing prices has greatly reduced monthly payments of principal and interest from just two months ago. The typical monthly mortgage payment on the median priced home has declined from $677 (or 30% of average spendable income) in April to an estimated $549 (or 24% of spendable income) in June.

While the housing market collapsed during the last eight months, investment in commercial and industrial structures remained robust. Now, however, non-residential construction is declining due to high interest rates and slowing economic activity. This decline is expected to continue until mid-1981. Office vacancy rates and the industrial vacancy rate indicate a relative shortage of space which will continue to exert pressure for increased commercial and industrial investment during 1981 and 1982.

Inflation rates have shown signs of slowing and mortgage interest rates have fallen sharply as the economy has slowed drastically. Unfortunately, this has been largely due to the severity of the current recession rather than to a wise choice of economic policies. Although further modest declines in interest rates can be expected this Summer, mortgage interest rates on residential, commercial and industrial real estate loans are expected to remain around 12 or 13 percent during the remainder of this year. Mortgage interest rates are expected to increase again in 1981 as the economy recovers and inflation accelerates while the federal government continues to stimulate the economy with excessive federal spending and fights inflation with tight credit policies. Unless a change in this inappropriate mix of government economic policies occurs, the problems of high interest rates and inflation are likely to persist for most of the next five years. Slower growth of federal spending, smaller government deficits and tax relief to stimulate savings and investment are needed to achieve lower interest rates, reduce inflation and increase economic well being.

OUTLOOK FOR THE U.S. ECONOMY AND REAL ESTATE

JUNE 1980

	QUARTERS								YEARS				
	Actual	Forecast							Actual		Forecast		
	80:1	80:2	80:3	80:4	81:1	81:2	81:3	81:4	1978	1979	1980	1981	1982
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,516	2,526	2,550	2,606	2,688	2,783	2,885	3,003	2,128	2,369	2,549	2,840	3,291
Percent Change	10.0	1.6	3.8	9.1	13.2	14.9	15.4	17.4	12.0	11.3	7.6	11.4	15.9
Percent Change (without inflation)	0.6	-7.3	-4.9	-1.1	1.0	4.4	5.0	5.9	4.4	2.3	-1.3	1.2	5.3
Consumption	0.3	-6.8	-2.8	-0.1	1.7	3.0	3.7	4.7	4.5	2.6	-0.4	0.9	4.1
Residential Investment	-24.6	-45.0	-27.3	-4.7	20.2	34.7	33.2	30.5	4.2	-5.7	-21.0	6.9	29.4
Nonresidential Investment	4.3	-8.2	-11.7	-7.0	0.6	3.0	5.3	6.6	8.4	6.2	-1.4	-1.7	6.8
Structures	2.9	-11.4	-15.4	-9.2	-6.5	-2.8	1.8	3.9	12.2	9.6	-0.1	-6.3	4.0
Equipment	4.9	-6.6	-9.8	-5.9	4.2	5.7	6.9	7.8	6.7	4.7	-2.0	0.5	8.1
Exports	19.6	3.3	-0.3	-0.7	1.5	4.7	5.9	5.6	10.6	10.1	9.0	2.4	6.4
Imports	5.9	-9.6	-6.1	-2.9	5.2	5.7	6.8	6.9	11.1	4.4	0.4	1.6	6.9
Government Purchases	4.3	-3.2	-1.6	-0.4	-0.1	0.3	0.6	1.0	1.8	0.4	1.2	-0.3	1.7
Residential Investment (% of GNP)	3.6	3.2	3.0	2.9	3.0	3.2	3.4	3.6	4.3	4.0	3.2	3.3	4.1
Nonresidential Structures Investment (% of GNP)	3.5	3.5	3.4	3.3	3.2	3.2	3.1	3.1	3.1	3.4	3.4	3.2	3.1
Inventory Change ($ billions)	0.1	-5.7	-12.7	-15.4	-5.7	1.9	8.7	16.3	22.3	18.1	-8.4	5.3	24.2
Mfg. Capacity Utilization Rate (%)	84	74	76	75	75	77	78	80	84	86	78	78	84
Manufacturing Industrial Production (% change)	-0.9	-19.4	-10.3	-4.6	5.1	10.8	12.8	12.9	6.1	4.4	-5.8	1.8	11.0
Employment (millions)	97.8	96.7	96.0	95.8	96.1	96.8	97.5	98..	94.4	96.9	96.6	97.1	100.4
Unemployment Rate (%)	6.1	7.6	8.5	9.0	9.1	8.9	8.7	8.5	6.0	5.8	7.8	8.8	7.7
Real Disposable Income per Household (% change)	-0.2	-3.6	-3.1	1.7	-1.6	1.4	3.1	2.6	3.8	1.5	-1.2	0.1	2.4
Disposable Income per Household (average)	26,912	27,320	27,786	28,433	29,192	30,126	31,138	32,160	22,766	25,306	27,613	30,654	34,701
Total Taxes per Household (average)	11,982	11,880	11,889	11,947	12,406	12,874	13,338	13,850	10,114	11,207	11,924	13,117	15,074
Percent Change	9.5	-3.3	0.3	2.0	16.3	16.0	15.2	16.2	12.3	10.8	6.4	10.0	14.9
Consumer Price Inflation (CPI)	16.9	14.4	10.1	10.1	10.7	11.8	11.7	11.9	7.7	11.3	13.8	11.1	11.[illegible]
Producers Price Inflation (WPI)	17.1	6.0	11.8	13.0	14.1	14.8	14.6	15.0	7.8	12.5	13.5	13.4	14.0
Gross National Product Inflation (GNP Deflator)	9.3	9.5	9.2	10.3	9.9	10.0	10.9	10.9	7.3	8.9	9.1	10.0	10.1
Residential Construction Inflation	8.3	6.6	9.8	12.1	13.4	13.5	13.5	13.5	13.1	12.3	9.1	12.3	12.8
Nonresidential Construction Inflation	9.1	7.1	9.9	11.6	11.9	12.6	12.8	12.9	8.8	10.5	9.7	11.6	12.5
Compensation per Manhour (% change)	9.7	9.8	10.7	11.3	13.4	11.1	10.9	10.9	8.6	8.9	9.6	11.5	11.1
Productivity (% change)	-0.3	-6.1	-3.5	-1.2	0.4	1.0	1.3	2.4	0.5	-1.1	-2.0	-0.5	2.0
Unit Labor Cost (% change)	10.1	16.7	14.6	12.7	12.9	10.0	9.5	8.4	8.0	10.2	11.9	12.0	8.9
Before Tax Corporate Profits ($ billions)	257	234	209	204	191	204	219	237	206	237	226	213	270
Corporate Tax Liability	102	93	83	81	69	74	80	87	85	93	90	78	99
After Tax Profits	156	141	126	123	122	130	139	150	122	144	136	135	171
Inventory Valuation Adjustment	-63	-57	-46	-47	-53	-60	-63	-67	-25	-42	-53	-61	-66
Capital Consumption Adjustment	-22	-22	-22	-23	-13	-14	-15	-16	-13	-17	-22	-14	-14
Profits from Current Production	70	62	58	53	56	56	61	67	83	86	61	60	91
Adjusted for Inflation (80:1 base)	70	61	55	49	51	50	53	57	95	90	59	53	72
Percent Change - Year Ago	-26.4	-34.9	-39.1	-40.3	-27.3	-18.0	-4.0	15.6	0.2	-5.1	-34.9	-10.5	37.6
Per Unit of Output (% of GNP)	2.8	2.5	2.3	2.0	2.1	2.0	2.1	2.2	3.9	3.6	2.4	2.1	2.8
Effective Corporate Tax Rate (%)	59	60	59	61	55	57	57	56	50	52	60	56	52
Federal Tax Receipts (NIA basis)	541	535	534	533	562	588	614	642	432	498	536	601	710
Federal Expenditures (NIA basis)	562	571	595	616	629	642	663	682	460	509	586	654	727
Surplus or Deficit (NIA basis) <1>	-22	-36	-62	-83	-68	-53	-49	-40	-28	-11	-51	-52	-16
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,983	2,388	2,786	3,182	3,293	3,566	3,679	3,819	3,863	3,701	2,835	3,589	4,149
Percent Change - Year Ago	-19.5	-36.0	-26.9	-10.5	10.4	49.3	32.1	20.0	8.8	-4.2	-23.4	26.6	15.6
Dollar Volume (billions)	205.9	169.3	204.6	233.2	250.3	280.7	302.7	315.0	214.4	237.6	203.3	287.2	375.3
New Single-Family Home Sales (thousands)	523	350	458	525	538	565	593	617	817	712	464	578	732
Percent Change - Year Ago	-29.8	-51.0	-38.2	-15.4	2.8	61.4	29.6	17.5	-0.2	-12.9	-34.2	24.6	26.6
Private Housing Starts (thousands)	1,263	1,007	1,113	1,222	1,329	1,484	1,628	1,736	2,020	1,744	1,151	1,544	2,111
Single-Family	801	623	736	810	924	1,066	1,196	1,293	1,433	1,193	742	1,120	1,637
Multi-Family	462	384	377	412	405	418	432	442	587	551	409	424	475
Subsidized	149	151	151	174	136	156	155	177	135	120	156	156	153
Mobile Home Shipments (thousands)	257	210	182	180	181	188	196	198	278	273	207	191	216
Housing Inventory (millions)	83.5	83.7	83.8	83.9	84.1	84.3	84.5	84.7	81.4	82.8	83.7	84.4	85.5
Rental Vacancy Rate (%)	5.0	5.0	5.1	5.3	5.5	5.5	5.5	5.4	5.0	5.3	5.1	5.5	5.2
Unsold New Homes (% of sales)	76.7	77.0	71.8	68.9	66.5	64.4	67.6	66.5	50.1	59.4	73.6	66.2	61.2
Office Vacancy Rate (%)<2>	3.4	3.5	3.7	3.8	4.0	4.1	4.2	4.1	6.4	4.4	3.6	4.1	3.7
Industrial Vacancy Rate (%)<2>	3.5	3.7	3.9	4.3	4.2	4.0	3.9	3.8	2.8	3.0	3.8	4.0	3.5
Existing Home Prices - Median ($1000's)	58.8	60.9	63.5	63.6	66.2	68.7	72.0	72.2	48.7	55.7	61.7	69.8	79.3
Percent Change - Year Ago	11.9	9.1	10.1	13.3	12.6	12.8	13.4	13.6	13.9	14.1	11.1	13.1	13.6
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	544	630	563	514	546	576	609	612	333	431	563	586	682
Percent of Household Income	24	28	24	22	22	23	23	23	18	20	24	23	24
New Home Prices - Median ($1000's)	64.3	65.6	67.5	69.5	71.8	74.2	76.7	79.4	55.7	62.9	66.7	75.5	86.4
Percent Change - Year Ago	5.9	5.0	3.0	11.4	11.6	13.1	13.7	14.2	13.9	12.5	6.3	13.2	14.4
FINANCIAL MARKETS													
Total Time and Savings Deposits (% change)	8.0	7.4	6.1	8.2	7.8	7.7	6.5	4.6	11.6	9.4	7.9	7.2	5.5
Savings Rate (%)	5.7	4.7	4.8	5.6	5.0	4.9	5.0	4.8	4.9	4.6	4.7	4.9	4.4
New Mortgage Commitments ($ billions)	89.2	81.1	74.7	92.5	105.0	112.2	120.0	118.2	136.0	123.0	79.3	113.8	108.3
Percent Change - Year Ago	-25.6	-53.8	-44.8	-11.7	17.8	83.7	60.7	27.8	1.6	-9.6	-35.5	43.5	-4.9
Mortgage Debt Outstanding ($ billions)	1,335	1,345	1,363	1,390	1,419	1,454	1,485	1,515	1,113	1,272	1,358	1,468	1,588
Money Supply (M2) (% change)	5.7	4.0	4.9	8.4	8.2	7.3	6.2	4.2	8.6	8.0	7.1	6.9	5.1
New Home Mortgage Commitment Rate (%)	13.64	15.37	13.03	11.76	12.04	12.25	12.37	12.39	9.69	11.23	13.45	12.26	12.60
AAA Corporate Bond Rate (%)	12.14	11.35	10.79	10.28	9.96	9.74	9.82	9.98	8.72	9.63	11.14	9.88	10.71
Prime Rate (%)	16.40	15.54	11.86	10.50	10.34	10.67	11.40	11.95	9.06	12.67	13.82	11.09	12.73
Federal Funds Rate (%)	15.05	12.24	8.89	8.88	9.72	10.31	10.96	11.57	7.93	11.19	11.26	10.64	12.20

<1> Assumptions include an $18 billion cut in personal tax liabilities beginning 1980:4 and a $12 billion (annual rate) cut in corporate income taxes beginning 1981:1.
<2> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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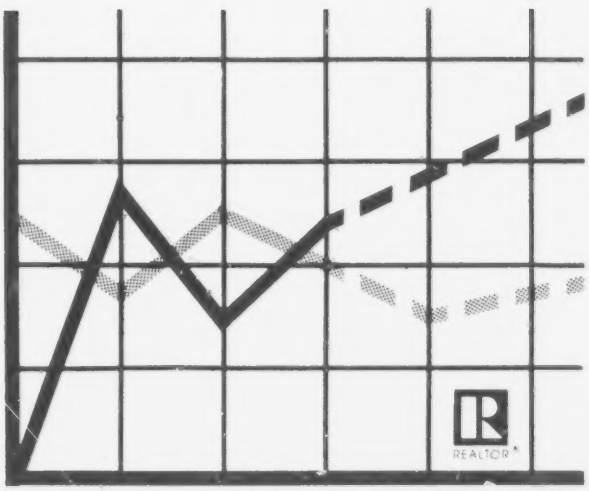
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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September 1980

U. S. ECONOMIC OUTLOOK

General Economy

After declining at a record nine percent rate in the spring -- the second worst recession in 40 years -- the economy is showing signs of a recovery within the next three months. The housing industry has experienced a modest recovery since May and consumer spending improved during the summer. The volume of output of goods and services is expected to decline by 1.4 percent this year and recover with a modest 1.5 percent increase in output in 1981 and a stronger 4.3 percent during 1982. Employment will grow during 1981 and 1982 while the unemployment rate declines slowly.

Consumer prices were unchanged in July for the first time in 13 years but producer prices increased by 1.7 percent or at a compound annual rate of 22.4 percent. Both indexes are misleading indicators of the underlying rate of inflation which is currently nearly 10 percent. Capital costs are increasing around 10 percent per year while unit labor costs will increase at just under 10 percent per year. Compensation increases of more than 10 percent will be offset by only 1 1/2 percent productivity growth next year as workers attempt to catch up with past increases in consumer prices. The increase in energy prices and higher social security taxes will keep consumer prices rising at close to 11 percent during both 1981 and 1982. This will be partially offset by the delayed impact of the recession helping to reduce inflation.

Interest rates dropped rapidly earlier this spring but undershot and have now moved up to more sustainable rates, given the underlying inflation rate and the even higher forecast of inflation for the next few years. While short term rates will fluctuate widely, this can be expected to slowly trend upward during the next two years. Long term rates, such as mortgage rates, can expect to stabilize at slightly above current rates through most of 1981. The Federal Reserve Board can be expected to maintain tighter controls on the growth of money supply and credit than has occurred in past economic recoveries. However, the Congress and the President are likely to continue excessive deficit spending which will cause higher inflation and interest rates within two years.

Tax Relief

The major Presidential candidates and the Senate Finance Committee have proposed tax relief but delayed until next year. President Carter proposes the longest delay -- three-quarters of his tax relief would not be effective until October-December, 1981. Ignoring politics, tax relief should be enacted now.

Neither President Carter nor Governor Reagan proposes tax relief to encourage housing. The tax proposals of both candidates would siphon funds out of housing towards competing investments and neither plan would attempt to directly encourage higher savings to provide funds for industry as well as real estate. The Reagan-endorsed 10-5-3 depreciation reform bill also explicitly excludes rental housing, the housing in short supply today.

The Reagan endorsed proposal for individual tax relief (involving about $25 billion in reductions in the first year, $60 billion in the second year, $120 billion in the third year), and the 10-5-3 depreciation reform bill ($40 billion in tax relief by the third year) represents a very substantial reduction in federal revenues. He has not however proposed slowing the growth of federal deficit spending sufficiently to make room for nearly $200 billion tax relief by the third year. Without such a slowdown in spending growth, the large tax relief proposed by Reagan would accelerate both inflation and interest rates and hurt housing and other real estate in the long run.

President Carter's tax program, while more modest, does not propose any restraint on deficit spending; in fact he proposes further increases in spending in 1981. This comes on top of the 17 percent estimated increases in spending now estimated for 1980. President Carter's proposals would also increase bureaucratic clearances and interpretation and would add to government intervention into the private sector.

In yet another tax package the Senate Finance Committee proposes a 20-year safe harbor for residential structures which provides a small incentive for additional housing construction. However, this incentive probably would not be enough to offset generous tax relief to other industries which would also siphon funds away from housing.

Commercial and Industrial Real Estate

Investment in new nonresidential structures is expected to decline through the middle of 1981 and then improve slowly through 1982, reflecting an expected drop in the utilization of existing industrial structures and equipment from 84 percent to 75 percent during the next 12 months and a forecast 12 months increase in office and industrial vacancy rates. Nonresidential construction prices will escalate at an 11 percent rate in both 1980 and 1981, then accelerate to a 12 percent rate as the demand for new buildings strengthens during 1982.

Housing

After 18 months of generally declining existing home sales, June and July registered encouraging increases in activity. Housing permits and starts and new home sales paralleled this behavior. However recent increases in interest rates have slowed the recovery in housing activity. Nevertheless, further improvement is forecast and housing starts are expected to recover from 1.3 million units this year to 1.7 million in 1981 and 2.1 million in 1982. Existing home sales should reach 3.7 million sales in 1981 and set a new record of 4.2 million sales in 1982.

Even though the median price of new homes increased by only 4.1 percent since last year, after adjusting for size and quality new home prices increased by 10.2 percent. Both new and existing home prices should increase by 11 to 12 percent in 1981 and 12 to 13 percent in 1982 -- faster than consumer prices, but slightly slower than growth in household income -- so that affordability is not likely to worsen. Based upon slightly increasing mortgage interest rates and accelerating housing prices, now is the best time to buy a home in comparison with the last 11 months or compared to 1981 and 1982.

OUTLOOK FOR THE U.S. ECONOMY AND REAL ESTATE

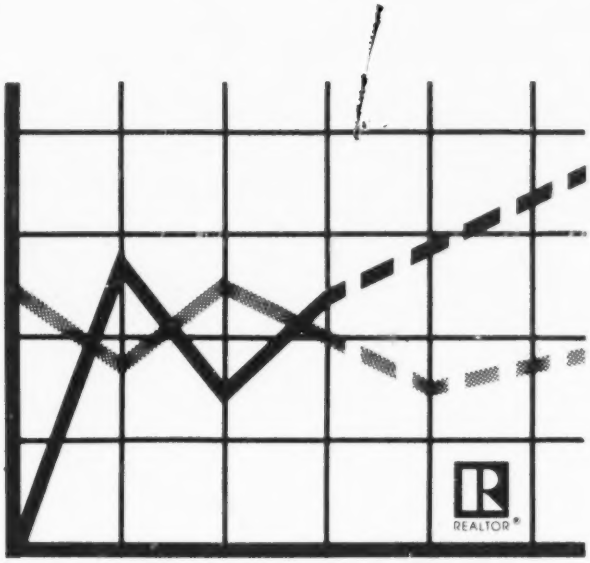
SEPTEMBER 1980

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	80:1	80:2	80:3	80:4	81:1	81:2	81:3	81:4	1978	1979	1980	1981	1982
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,521	2,525	2,560	2,626	2,708	2,798	2,897	3,004	2,128	2,369	2,558	2,852	3,263
Percent Change	10.8	0.6	5.8	10.6	13.2	13.9	15.0	15.6	12.0	11.3	8.0	11.5	14.4
Percent Change (without Inflation)	1.2	-9.0	-4.2	0.2	3.8	4.0	4.8	4.7	4.4	2.3	-1.4	1.5	4.3
Consumption	0.5	-9.8	-1.3	1.8	2.2	1.7	2.7	4.0	4.5	2.6	-0.7	1.0	3.4
Residential Investment	-26.3	-61.6	12.2	14.6	40.7	37.5	23.7	21.2	4.2	-5.7	-21.6	17.5	21.3
Nonresidential Investment	1.9	-15.4	-9.3	0.6	-2.4	3.7	3.5	4.1	8.4	6.2	-2.7	-1.4	4.1
Structures	1.2	-8.9	-13.5	-8.4	-8.3	-2.4	0.8	2.0	12.2	9.6	0.3	-6.3	2.5
Equipment	2.0	-18.4	-7.2	5.4	0.5	6.7	4.7	5.0	6.7	4.7	-4.1	1.0	4.9
Exports	26.0	-9.7	-4.8	-2.1	0.1	5.0	6.3	6.3	10.6	10.1	7.0	0.4	6.8
Imports	10.4	-21.6	-7.7	0.5	5.1	6.3	8.2	9.1	11.1	4.4	-1.2	1.4	6.4
Government Purchases	4.3	1.9	0.6	-2.7	-1.0	1.5	1.2	1.4	1.8	0.4	2.3	-0.1	2.2
Residential Investment (% of GNP)	3.6	2.9	3.0	3.1	3.3	3.6	3.7	3.9	4.3	4.0	3.1	3.6	4.2
Inventory Change ($ billions)	4.7	13.6	-6.7	-14.9	-4.3	2.6	14.7	20.9	22.3	18.1	-0.8	8.4	20.6
Mfg. Capacity Utilization Rate (%)	84	78	75	75	76	77	79	80	84	86	78	78	82
Manufacturing Industrial Production (% change)	-0.9	-21.4	-10.4	0.3	7.5	11.5	11.7	9.9	6.1	4.4	-6.0	3.0	7.6
Employment (millions)	97.8	96.9	96.7	96.1	96.8	97.4	98.1	98.8	94.4	96.9	96.9	97.8	100.6
Unemployment Rate (%)	6.1	7.5	7.9	8.7	8.5	8.4	8.1	8.0	6.0	5.8	7.6	8.3	7.6
Disposable Income per Household (average)	26,915	27,145	27,795	28,500	29,046	29,824	30,801	31,888	22,766	25,306	27,589	30,390	34,245
Percent Change (without inflation)	0.1	-6.7	0.7	-0.6	2.0	0.3	2.8	3.5	3.8	1.5	-1.4	0.6	2.1
Total Taxes per Household (average)	11,953	11,815	11,839	12,173	12,407	12,866	13,354	13,863	10,114	11,207	11,945	13,123	15,028
Percent Change	8.5	-4.5	0.8	11.8	7.9	15.6	16.0	16.2	12.3	10.8	6.6	9.9	14.5
Consumer Price Inflation (CPI)	16.9	13.7	8.3	10.3	10.7	11.2	11.3	11.3	7.7	11.3	13.5	10.7	10.6
Gross National Product Inflation (GNP Deflator)	9.5	10.6	10.4	10.4	9.1	9.5	9.7	10.4	7.3	8.9	9.5	9.8	9.7
Personal Consumption Inflation	12.4	10.8	9.9	10.8	10.6	10.0	10.1	10.1	6.8	8.9	10.7	10.4	9.7
Residential Construction Inflation	9.8	10.9	9.4	11.0	12.6	12.3	12.5	12.7	13.1	12.3	10.1	11.8	11.6
Nonresidential Construction Inflation	11.5	12.2	9.4	10.2	10.9	11.5	12.1	12.8	8.8	10.5	11.1	11.1	11.9
Producers Price Inflation (WPI)	17.7	4.9	15.9	13.9	12.9	13.4	14.0	14.4	7.8	12.5	14.0	13.3	12.7
Compensation per Manhour (% change)	10.7	10.8	9.9	11.0	12.1	10.5	10.7	10.6	8.5	8.9	10.0	11.0	10.6
Productivity (% change)	-1.0	-4.1	-1.9	2.5	2.5	2.9	2.0	2.2	0.5	-1.2	-1.4	1.5	2.2
Unit Labor Cost (% change)	12.1	15.6	12.0	8.3	9.3	7.4	8.5	8.3	8.0	10.2	11.6	9.3	8.2
Before Tax Corporate Profits ($ billions)	260	209	201	206	221	240	254	270	206	237	219	246	299
Corporate Tax Liability	102	80	77	79	85	92	98	104	85	93	85	95	115
After Tax Profits	158	129	124	127	136	148	156	166	122	144	135	152	184
Profits from Current Production (with IVA and CCA)	73	77	70	68	70	72	72	75	83	86	72	72	90
Adjusted for Inflation (80:1 base)	73	75	67	63	64	64	63	63	95	90	69	63	72
Percent Change - Year Ago	-23.9	-20.4	-26.3	-23.6	-12.2	-14.6	-5.8	0.6	0.2	-5.1	-23.5	-8.4	13.0
Per Unit of Output (% of GNP)	2.9	3.0	2.7	2.6	2.6	2.6	2.5	2.5	3.9	3.6	2.8	2.5	2.7
Effective Corporate Tax Rate (%)	59	51	52	54	55	56	57	58	50	52	54	57	56
Federal Tax Receipts (Unified basis)	115	156	134	125	120	179	153	143	104	120	132	149	178
Federal Expenditures (Unified basis)	142	148	150	156	160	160	164	174	115	127	149	165	184
Surplus or Deficit (Unified basis) <1>	-27	8	-16	-32	-41	20	-11	-31	-11	-7	-17	-16	-6
Full Employment Surplus or Deficit	9	9	12	15	14	29	34	40	-13	8	11	29	52
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,983	2,403	2,980	3,175	3,338	3,675	3,785	3,974	3,863	3,701	2,885	3,693	4,202
Percent Change - Year Ago	-19.5	-35.5	-21.9	-10.7	11.9	52.9	27.0	25.2	8.8	-4.2	-22.1	28.0	13.8
Dollar Volume (billions)	205.9	173.0	221.6	229.8	253.6	287.6	306.2	322.1	214.4	237.6	207.6	292.4	373.7
New Single-Family Home Sales (thousands)	530	446	545	528	548	553	566	576	817	712	512	561	631
Percent Change - Year Ago	-28.9	-37.5	-26.5	-14.9	3.4	24.0	3.9	9.0	-0.2	-12.9	-27.3	9.5	12.6
Private Housing Starts (thousands)	1,263	1,048	1,340	1,397	1,598	1,702	1,759	1,851	2,020	1,744	1,262	1,728	2,117
Single-Family	802	672	908	943	1,088	1,222	1,296	1,365	1,433	1,193	831	1,243	1,526
Multi-Family	462	376	432	455	510	480	463	485	587	551	431	485	590
Subsidized	149	151	151	174	136	156	155	177	135	120	156	156	153
Mobile Home Shipments (thousands)	257	175	182	196	216	211	210	214	277	276	203	213	238
Housing Inventory (millions)	83.5	83.7	83.8	84.0	84.2	84.4	84.7	85.0	81.4	82.8	83.8	84.6	85.8
Rental Vacancy Rate (%)	5.0	5.4	5.2	5.3	5.4	5.5	5.4	5.4	5.0	5.3	5.2	5.4	5.3
Unsold New Homes (% of sales)	75.7	86.4	67.1	66.7	63.2	59.9	60.5	59.5	50.1	59.4	74.0	60.8	59.3
Office Vacancy Rate (%)<2>	3.4	3.5	3.7	3.8	3.9	4.0	4.1	4.1	6.4	4.4	3.6	4.0	3.8
Industrial Vacancy Rate (%)<2>	3.5	3.4	3.6	3.9	3.9	3.8	3.7	3.6	2.8	3.0	3.6	3.8	3.3
Existing Home Prices - Median ($1000's)	58.8	61.7	64.1	62.7	66.1	68.2	70.7	71.0	48.7	55.7	61.8	69.0	78.0
Percent Change - Year Ago	11.9	10.5	11.3	11.7	12.3	10.7	10.2	13.2	13.9	14.1	11.3	11.6	13.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	544	633	544	548	583	605	628	635	333	431	567	613	686
Percent of Household Income	24	28	23	23	24	24	24	24	18	20	25	24	24
New Home Prices - Median ($1000's)	63.5	63.1	68.2	69.4	69.7	71.3	75.3	77.4	55.7	62.9	66.1	73.4	82.6
Percent Change - Year Ago	4.6	1.0	4.1	11.2	9.7	13.0	10.4	11.5	13.9	12.5	5.2	11.1	12.5
New Home Prices--Mean ($1000's, Quality Adjusted)	72.0	74.1	76.6	78.4	80.1	82.5	85.6	87.8	59.6	68.1	75.3	84.0	94.5
Percent Change - Year Ago	11.3	9.8	10.2	11.0	11.2	11.3	11.7	12.0	13.8	14.2	10.6	11.6	12.6
FINANCIAL MARKETS													
Total Time and Savings Deposits (% change)	8.0	8.9	7.5	8.6	9.1	10.4	9.1	8.6	11.6	9.4	8.4	9.0	7.0
Savings Rate (%)	3.7	4.8	5.6	5.4	5.6	5.4	5.6	5.6	4.9	4.6	4.9	5.5	5.0
New Mortgage Commitments ($ billions)	81.3	57.5	62.5	75.3	75.2	81.8	95.8	113.9	142.4	129.0	69.1	91.7	113.9
Percent Change - Year Ago	-36.2	-58.7	-55.0	-32.0	-7.4	42.2	53.4	51.3	2.2	-9.4	-46.4	32.6	24.2
Mortgage Debt Outstanding ($ billions)	1,363	1,370	1,382	1,406	1,440	1,482	1,525	1,572	1,113	1,272	1,380	1,505	1,664
Money Supply (M2) (% change)	5.7	4.9	6.5	7.7	8.3	11.0	9.7	9.2	8.6	8.0	7.4	8.5	6.9
New Home Mortgage Commitment Rate (%)	13.64	15.23	12.40	12.83	12.97	13.03	13.05	13.15	9.69	11.23	13.53	13.05	12.93
Prime Rate (%)	16.40	16.32	11.40	11.69	11.63	12.05	12.17	12.30	9.06	12.67	13.95	12.04	13.15
Federal Funds Rate (%)	15.05	12.69	9.80	11.37	11.8	12.08	11.91	12.18	7.93	11.19	12.22	12.00	13.20

<1> Assumptions include an $24 billion cut in personal tax liabilities beginning 1981:1 and a $ 5 billion (annual rate) cut in corporate income taxes beginning 1981:1.
<2> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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THE U.S. ECONOMIC AND REAL ESTATE OUTLOOK

General Economic Outlook

Following the dramatic decline in output in the spring, preliminary indications of the start of the economic recovery continued during the last month. The unemployment rate fell slightly in September and the Department of Commerce's index of leading economic indicators rose for the third straight month. Consumer spending and new housing starts continued their modest rebound and the foreign trade sector added considerable strength to the economy during the summer.

The early signs of economic recovery should keep the overall drop in the nation's output of goods and services to less than 1 percent this year. With the expected continuation of the Federal Reserve Board's tight credit policies, national output after adjusting for inflation is forecast to increase by a modest 1.6 percent next year. However, by 1982, the national economy is expected to grow strongly as output rises by 4.3 percent.

The earlier than anticipated turnaround in the economy should keep the unemployment rate from increasing much above 8 percent during the early part of next year. As the predicted recovery gathers momentum in late 1981, employment gains should increase and the unemployment rate may drop below 7 percent again by late 1982.

While the outlook for a recovery in the growth of national output is moderately encouraging, the prospects for a renewal of accelerating inflation and continued high interest rates paint a darker picture. Consumer prices rose at an annual rate of 8.7 percent in August. However, the impact of the most recent increases in mortgage interest rates have yet to be reflected in the consumer price index. This factor, together with further increases in food and energy costs and with labor costs rising at 10 percent per year, is likely to keep inflation running at over 11 percent for the next two years.

Reacting to the sharply depressed economy, interest rates fell dramatically in the spring. As loan demand stabilized and the economy recovered, both long and short-term interest rates have risen again. The new approach by the Federal Reserve Board to management of the growth of money and credit will mean wider fluctuations in short-term interest rates over the next two years. With high inflation forecast to continue through 1982 and the Federal Reserve Board expected to maintain a tight stance on credit growth, there seems little prospect of substantial declines in interest rates. Moreover, the continuation of excessive growth of federal spending and growing federal deficits is placing further upward pressure on interest rates. Long-term interest rates, including mortgage rates can be expected to remain in the 13 to 14 percent range over the next two years.

Another risk to the housing recovery arises should the war between Iraq and Iran continue into next year with extensive damage to oil fields. Crude oil production could be reduced by over 3 million barrels per day, causing oil prices to increase by 60 percent during 1981. As a result, inflation might increase by 2 percentage points in 1981 and 1982, with employment dropping by 250,000 jobs next year and over 1 million jobs in 1982. Mortgage interest rates would rise by over 1 percentage point, housing starts could fall by 200,000 units in 1981 and 400,000 in 1982. Existing home sales could fall by nearly 400,000 units in 1981 and 700,000 units in 1982.

Real Estate, Fiscal Policy and the Presidential Election

As the election approaches, both President Carter and Ronald Reagan have refined their policies towards government spending, taxation and housing. Both major presidential candidates early in their campaign advocated anti-housing spending and tax policies.

President Carter continued excessive spending growth which pushed up inflation and interest rates and forced the Federal Reserve Board into adopting tighter credit policies. President Carter also initially opposed much needed tax relief to boost savings and investment. On the other hand, Ronald Reagan at first advocated a massive program of tax relief which was directed too heavily at increasing consumption and with insufficient incentive provided for additional private savings. This would drive up inflation and interest rates and hurt housing. While ignoring the need for tax incentives for increased construction of rental housing, the initial Reagan tax plan would have siphoned funds out of housing into other areas receiving favorable tax treatment.

Recently President Carter has advocated tax relief to stimulate investment, although this is too small, too late, and doesn't provide for incentives for housing construction. Carter has endorsed limited tax relief for savers but again this is too small to be really effective. Unfortunately, President Carter's recent attempts to slow government spending growth were largely cosmetic and inadequate for a real fight against inflation and higher interest rates.

Reagan is now proposing to slow federal spending growth by 2 percent in 1981 and less than growth of people's income in subsequent years to help accommodate his huge tax relief package. If accomplished, this would reduce the inflationary and interest rate-raising effects of his tax cuts. Mr. Reagan has also indicated that he favors increased tax incentives for savers as part of his tax package. However, he has yet to advocate increased tax incentives for rental residential construction and completely eliminate the danger that his tax package will siphon funds out of housing into other areas.

Housing

Sales of existing single-family homes continued to climb in August to a seasonally adjusted annual rate of 3.03 million units. This represents a 3.8 percent rise over July and a 31.2 percent increase from the low point of 2.31 million units in April. Despite this upturn however, sales are still 20 percent below the year ago level. Existing home sales are forecast to average 2.9 million units this year, rising to 3.5 million units in 1981. By 1982, sales should be at a record 4.1 million units.

The improvement in housing activity has also been reflected in the recent increase in new home starts from a low point of 0.9 million units in May to 1.4 million units in August. The recent increases in mortgage rates are expected to keep next year's improvement in new starts fairly modest. New starts are forecast to be 1.6 million units in 1981, up 26 percent from 1980, and over 2 million units in 1982.

Average prices for new homes are expected to increase by 10.5 percent this year, after adjusting for changes in the average size of and quality of homes sold. New and existing home price increases are forecast to accelerate in 1981 at 12 to 13 percent--above the rate of consumer price inflation. The strong housing demand anticipated in 1982 should keep home prices rising above 13 percent in 1982. With an acceleration in housing price increases expected during the next two years and mortgage rates likely to stabilize around present levels, now remains a good time to buy a home.

Commercial and Industrial Real Estate

Continuing high interest rates and the sharp fall in national output during the spring have caused a decline in the construction of new commercial and industrial structures. Nonresidential construction is forecast to decline until summer of next year before beginning a modest recovery. By 1982, new commercial, industrial and agricultural construction activity is expected to be robust, but below the very high growth rates achieved in 1978 and 1979.

OUTLOOK FOR THE U.S. ECONOMY AND REAL ESTATE

OCTOBER 1980

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	80:1	80:2	80:3	80:4	81:1	81:2	81:3	81:4	1978	1979	1980	1981	1982
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,521	2,521	2,585	2,658	2,749	2,839	2,926	3,019	2,128	2,369	2,571	2,883	3,320
Percent Change	10.8	0.1	10.5	11.7	14.5	13.8	12.8	13.4	12.0	11.3	8.5	12.1	15.1
Percent Change (without inflation)	1.2	-9.6	0.1	0.8	3.8	3.4	2.6	2.0	4.4	2.3	-0.9	1.6	4.3
Consumption	0.5	-10.5	5.2	1.0	4.1	2.4	1.9	1.8	4.5	2.6	-0.1	1.9	3.9
Residential Investment	-26.3	-61.6	5.7	16.0	35.7	25.9	13.6	13.5	4.2	-5.7	-22.1	12.1	21.5
Nonresidential Investment	1.9	-14.7	-6.8	-5.8	-1.8	0.5	3.5	3.3	8.4	6.2	-2.6	-2.7	4.7
Structures	1.2	-9.3	-12.4	-11.2	-8.1	-4.2	2.8	2.1	12.2	9.6	0.2	-6.7	2.6
Equipment	2.0	-17.1	-4.0	-3.1	1.4	2.7	3.8	3.8	6.7	4.7	-3.9	-0.7	5.7
Exports	26.0	-9.9	-6.7	-0.9	0.1	4.3	5.7	5.5	10.6	10.1	6.8	0.2	5.9
Imports	10.4	-23.2	-10.0	0.4	2.9	8.7	9.1	10.2	11.1	4.4	-1.9	1.1	8.8
Government Purchases	4.3	1.3	-0.4	-2.2	-0.1	0.6	1.4	0.3	1.8	0.4	2.1	-0.1	1.7
Residential Investment (% of GNP)	3.6	2.9	2.9	3.0	3.2	3.4	3.5	3.6	4.3	4.0	3.1	3.4	4.0
Inventory Change ($ billions)	4.7	11.4	-7.0	-5.2	-3.1	5.1	8.3	10.5	22.3	18.1	1.0	5.2	17.6
Mfg. Capacity Utilization Rate (%)	83	78	75	75	76	77	78	78	84	86	78	77	81
Manufacturing Industrial Production (% change)	-1.5	-21.5	-14.2	5.4	8.5	8.5	5.4	5.5	6.1	4.6	-5.9	2.5	7.7
Employment (millions)	97.8	96.9	96.9	97.1	97.3	98.1	98.8	99.5	94.4	96.9	97.2	98.4	101.5
Unemployment Rate (%)	6.1	7.5	7.7	7.8	8.0	7.8	7.6	7.4	6.0	5.8	7.3	7.7	6.8
Disposable Income per Household (average)	26,915	27,158	27,921	28,701	29,494	30,390	31,268	32,207	22,766	25,306	27,674	30,840	34,900
Percent Change (without inflation)	0.1	-6.8	2.6	-0.5	3.6	1.0	1.2	1.3	3.8	1.5	-1.2	1.1	2.1
Total Taxes per Household (average)	11,953	11,789	12,066	12,453	12,794	13,239	13,641	14,077	10,114	11,207	12,065	13,438	15,473
Percent Change	8.5	-5.4	9.8	13.4	11.4	14.7	12.7	13.4	12.3	10.8	7.7	11.4	15.2
Consumer Price Inflation (CPI)	16.9	13.7	7.6	11.0	11.9	11.6	11.5	11.5	7.7	11.3	13.4	11.2	11.1
Gross National Product Inflation (GNP Deflator)	9.5	10.7	10.4	10.8	10.2	10.1	9.9	11.1	7.3	8.9	9.6	10.4	10.3
Personal Consumption Inflation	12.4	11.0	9.3	11.1	11.1	10.7	10.3	10.3	6.8	8.9	10.6	10.7	10.0
Residential Construction Inflation	9.8	10.9	8.0	11.5	13.1	12.6	13.0	13.4	13.1	12.3	10.0	12.0	13.4
Nonresidential Construction Inflation	11.5	12.4	8.3	10.5	11.3	12.0	12.8	13.4	8.8	10.5	11.0	11.3	13.4
Producers Price Inflation (WPI)	17.4	5.9	17.4	14.4	14.8	14.8	14.4	15.0	7.8	12.5	14.3	14.4	14.3
Compensation per Manhour (% change)	10.7	10.8	10.1	10.9	12.7	10.7	10.5	10.8	8.5	8.9	10.0	11.1	11.0
Productivity (% change)	-1.0	-2.8	0.1	2.0	2.3	1.7	1.6	0.4	0.5	-1.2	-0.9	1.3	2.0
Unit Labor Cost (% change)	12.1	14.0	9.9	8.7	10.2	8.8	8.8	10.3	8.0	10.2	11.1	9.7	8.9
Before Tax Corporate Profits ($ billions) <3>	260	205	222	227	243	252	258	266	206	237	229	255	314
Corporate Tax Liability <3>	102	78	85	87	93	97	99	103	85	93	88	98	121
After Tax Profits <3>	158	127	137	140	150	155	159	164	122	144	140	157	193
Profits from Current Production (with IVA, CCA)<3>	73	75	86	82	80	75	73	73	83	86	79	75	95
Adjusted for Inflation (80:1 base)	73	73	82	76	72	67	63	61	95	90	76	66	75
Percent Change - Year Ago	-23.9	-21.5	-9.1	-7.1	-0.5	-9.1	-23.7	-19.6	0.2	-5.1	-15.9	-13.6	14.2
Per Unit of Output (% of GNP)	2.9	3.0	3.3	3.1	2.9	2.7	2.5	2.4	3.9	3.6	3.1	2.6	2.9
Effective Corporate Tax Rate (%)	59	51	50	51	54	56	58	58	50	52	53	57	56
Federal Tax Receipts (Unified basis)	459	625	546	513	501	740	630	585	417	481	536	614	737
Federal Expenditures (Unified basis)	567	593	613	629	645	643	661	702	461	509	600	663	743
Surplus or Deficit (Unified basis) <1>	-108	32	-67	-116	-144	97	-31	-117	-44	-28	-65	-49	-6
Full Employment Surplus or Deficit	9	9	-1	12	18	36	40	45	-13	8	7	35	59
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,983	2,403	3,005	3,135	3,233	3,485	3,640	3,763	3,863	3,701	2,882	3,530	4,107
Percent Change - Year Ago	-19.5	-35.6	-21.2	-11.8	8.4	45.0	21.1	20.0	8.8	-4.2	-22.1	22.5	16.3
Dollar Volume (billions)	205.9	173.0	224.1	233.2	246.1	278.4	302.8	315.2	214.4	236.7	209.0	285.6	373.8
New Single-Family Home Sales (thousands)	530	448	624	628	700	754	785	799	817	712	557	759	822
Percent Change - Year Ago	-28.9	-37.3	-15.7	1.2	32.1	68.4	25.8	27.2	-0.2	-12.9	-20.9	36.2	8.2
Private Housing Starts (thousands)	1,263	1,053	1,367	1,433	1,563	1,583	1,625	1,689	2,020	1,744	1,279	1,615	2,081
Single-Family	802	671	954	1,006	1,130	1,168	1,214	1,266	1,433	1,193	858	1,195	1,540
Multi-Family	462	382	413	427	433	415	411	423	587	551	421	421	541
Subsidized	149	151	151	174	136	156	155	177	135	120	156	156	153
Mobile Home Shipments (thousands)	257	175	222	218	210	207	205	208	277	277	218	207	234
Housing Inventory (millions)	83.5	83.7	83.8	84.0	84.2	84.5	84.7	85.0	81.4	82.8	83.8	84.6	85.7
Rental Vacancy Rate (%)	5.0	5.4	5.1	5.0	5.0	5.1	5.1	5.1	5.0	5.3	5.1	5.1	4.9
Unsold New Homes (% of sales)	75.7	86.2	65.4	65.7	66.0	66.8	67.4	67.3	50.1	59.4	73.2	66.9	61.0
Office Vacancy Rate (%)<2>	3.4	3.5	3.7	3.8	3.9	4.0	4.1	4.1	6.4	4.4	3.6	4.0	3.8
Industrial Vacancy Rate (%)<2>	3.3	3.4	3.6	3.9	3.9	3.8	3.7	3.6	2.8	3.0	3.6	3.8	3.3
Existing Home Prices - Median ($1000's)	58.8	61.7	64.3	64.5	66.2	69.7	72.7	73.3	48.7	55.7	62.3	70.5	79.7
Percent Change - Year Ago	11.9	10.5	11.6	14.8	12.6	13.0	13.0	13.7	13.9	14.1	12.2	13.1	13.2
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	544	633	561	597	618	661	688	700	333	435	584	667	738
Percent of Average Household Income	24	28	24	25	25	26	26	26	18	21	25	26	25
New Home Prices - Median ($1000's)	63.5	63.1	64.7	66.6	68.8	70.9	73.2	75.6	55.7	62.9	64.5	72.1	82.5
Percent Change - Year Ago	4.6	1.0	-1.2	6.8	8.3	12.4	13.1	13.4	13.9	12.5	2.7	11.8	14.3
New Home Prices--Mean ($1000's, Quality Adjusted)	72.0	74.1	76.6	78.2	79.9	82.5	85.6	87.7	59.6	68.1	75.2	83.9	94.9
Percent Change - Year Ago	11.3	9.8	10.2	10.8	11.0	11.3	11.7	12.1	13.8	14.2	10.5	11.6	13.1
FINANCIAL MARKETS													
Total Time and Savings Deposits (% change)	8.0	8.9	7.6	8.5	8.5	9.2	9.2	8.4	11.6	9.4	8.4	8.6	8.2
Savings Rate (%)	3.7	4.9	4.7	4.7	4.8	4.7	4.7	4.7	4.9	4.6	4.5	4.7	3.8
New Mortgage Commitments ($ billions)	77.9	46.6	69.1	76.4	88.9	103.9	111.6	121.8	142.4	129.0	67.2	106.5	126.5
Percent Change - Year Ago	-38.8	-66.5	-51.0	-31.0	14.1	123.0	63.9	59.5	2.2	-9.4	-47.9	58.4	18.7
Mortgage Debt Outstanding ($ billions)	1,364	1,370	1,379	1,393	1,417	1,448	1,481	1,510	1,113	1,272	1,376	1,464	1,575
Money Supply (M2) (% change)	5.7	4.9	5.9	7.4	8.9	10.0	9.5	8.8	8.6	8.0	7.3	8.3	8.1
New Home Mortgage Commitment Rate (%)	13.64	15.23	12.79	13.65	13.77	14.01	13.98	14.10	9.69	11.35	13.53	13.96	13.66
Prime Rate (%)	16.40	16.32	11.72	12.64	12.98	13.21	13.48	13.78	9.06	12.67	14.27	13.36	13.49
Federal Funds Rate (%)	15.05	12.69	9.81	11.61	11.60	12.29	12.66	13.18	7.93	11.19	12.29	12.43	13.29

<1> Assumptions include a $20 billion cut in personal tax liabilities and a $5 billion (annual rate) cut in corporate income taxes beginning 1981:1; resumption of pre-war oil production in Iraq and Iran by 1981:1.
<2> Historical data courtesy of Coldwell Banker.
<3> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.